(i) The weight assigned to 1,250 percent equals $\frac{K_A - A}{D - A}$; and

(ii) The weight assigned to 1,250 percent times K_{SSFA} equals $\frac{D - K_A}{D - A}$. The risk weight will be set equal to:

$$Risk\ Weight = \left[\left(\frac{K_A - A}{D - A}\right) \cdot 1{,}250\ percent\right] + \left[\left(\frac{D - K_A}{D - A}\right) \cdot 1{,}250\ percent \cdot K_{SSFA}\right]$$

(d) SSFA equation. (1) The [BANK] must define the following parameters:

$$K_A = (1 - W) \cdot K_G + (0.5 \cdot W)$$

$$a = -\frac{1}{p \cdot K_A}$$

$$u = D - K_A$$

$$l = \max(A - K_A, 0)$$

$e = 2.71828$, the base of the natural logarithms.

(2) Then the [BANK] must calculate K_{SSFA} according to the following equation:

$$K_{SSFA} = \frac{e^{a \cdot u} - e^{a \cdot l}}{a(u - l)}$$

(3) The risk weight for the exposure (expressed as a percent) is equal to $K_{SSFA} \times 1{,}250$.

§ 3.145 Recognition of credit risk mitigants for securitization exposures.

(a) *General.* An originating national bank or Federal savings association that has obtained a credit risk mitigant to hedge its securitization exposure to a synthetic or traditional securitization that satisfies the operational criteria in § 3.141 may recognize the credit risk mitigant, but only as provided in this section. An investing national bank or Federal savings association that has obtained a credit risk mitigant to hedge a securitization exposure may recognize the credit risk mitigant, but only as provided in this section.

(b) *Collateral*—(1) *Rules of recognition.* A national bank or Federal savings association may recognize financial collateral in determining the national bank's or Federal savings association's risk-weighted asset amount for a securitization exposure (other than a repo-style transaction, an eligible margin loan, or an OTC derivative contract for which the national bank or Federal savings association has reflected collateral in its determination of exposure

amount under §3.132) as follows. The national bank's or Federal savings association's risk-weighted asset amount for the collateralized securitization exposure is equal to the risk-weighted asset amount for the securitization exposure as calculated under the SSFA in §3.144 or under the SFA in §3.143 multiplied by the ratio of adjusted exposure amount (SE*) to original exposure amount (SE),

Where:

(i) $SE^* = \max\{0, [SE - C \times (1 - H_s - H_{fx})]\}$;

(ii) SE = the amount of the securitization exposure calculated under §3.142(e);

(iii) C = the current fair value of the collateral;

(iv) H_s = the haircut appropriate to the collateral type; and

(v) H_{fx} = the haircut appropriate for any currency mismatch between the collateral and the exposure.

(2) Mixed collateral. Where the collateral is a basket of different asset types or a basket of assets denominated in different currencies, the haircut on the basket will be $H = \sum_i a_i H_i$, where a_i is the current fair value of the asset in the basket divided by the current fair value of all assets in the basket and H_i is the haircut applicable to that asset.

(3) *Standard supervisory haircuts.* Unless a national bank or Federal savings association qualifies for use of and uses own-estimates haircuts in paragraph (b)(4) of this section:

(i) A national bank or Federal savings association must use the collateral type haircuts (H_s) in Table 1 to §3.132 of this subpart;

(ii) A national bank or Federal savings association must use a currency mismatch haircut (H_{fx}) of 8 percent if the exposure and the collateral are denominated in different currencies;

(iii) A national bank or Federal savings association must multiply the supervisory haircuts obtained in paragraphs (b)(3)(i) and (ii) of this section by the square root of 6.5 (which equals 2.549510); and

(iv) A national bank or Federal savings association must adjust the supervisory haircuts upward on the basis of a holding period longer than 65 business days where and as appropriate to take into account the illiquidity of the collateral.

(4) *Own estimates for haircuts.* With the prior written approval of the OCC, a national bank or Federal savings association may calculate haircuts using its own internal estimates of market price volatility and foreign exchange volatility, subject to §3.132(b)(2)(iii). The minimum holding period (T_M) for securitization exposures is 65 business days.

(c) *Guarantees and credit derivatives—*(1) *Limitations on recognition.* A national bank or Federal savings association may only recognize an eligible guarantee or eligible credit derivative provided by an eligible guarantor in determining the national bank's or Federal savings association's risk-weighted asset amount for a securitization exposure.

(2) *ECL for securitization exposures.* When a national bank or Federal savings association recognizes an eligible guarantee or eligible credit derivative provided by an eligible guarantor in determining the national bank's or Federal savings association's risk-weighted asset amount for a securitization exposure, the national bank or Federal savings association must also:

(i) Calculate ECL for the protected portion of the exposure using the same risk parameters that it uses for calculating the risk-weighted asset amount of the exposure as described in paragraph (c)(3) of this section; and

(ii) Add the exposure's ECL to the national bank's or Federal savings association's total ECL.

(3) *Rules of recognition.* A national bank or Federal savings association may recognize an eligible guarantee or eligible credit derivative provided by an eligible guarantor in determining the national bank's or Federal savings association's risk-weighted asset amount for the securitization exposure as follows:

(i) *Full coverage.* If the protection amount of the eligible guarantee or eligible credit derivative equals or exceeds the amount of the securitization exposure, the national bank or Federal savings association may set the risk-weighted asset amount for the securitization exposure equal to the risk-weighted asset amount for a direct exposure to the eligible guarantor (as determined in the wholesale risk weight function described in §3.131), using the national bank's or Federal savings association's PD for the guarantor, the national bank's or Federal savings association's LGD for the guarantee or credit derivative, and an EAD equal to the amount of the securitization exposure (as determined in §3.142(e)).

(ii) *Partial coverage.* If the protection amount of the eligible guarantee or eligible credit derivative is less than the amount of the securitization exposure, the national bank or Federal savings association may set the risk-weighted asset amount for the securitization exposure equal to the sum of:

(A) *Covered portion.* The risk-weighted asset amount for a direct exposure to the eligible guarantor (as determined in the wholesale risk weight function described in §3.131), using the national bank's or Federal savings association's PD for the guarantor, the national bank's or Federal savings association's LGD for the guarantee or credit derivative, and an EAD equal to the protection amount of the credit risk mitigant; and

(B) *Uncovered portion.* (*1*) 1.0 minus the ratio of the protection amount of the eligible guarantee or eligible credit derivative to the amount of the securitization exposure); multiplied by

(*2*) The risk-weighted asset amount for the securitization exposure without the credit risk mitigant (as determined in §§3.142 through 146).

(4) *Mismatches.* The national bank or Federal savings association must make applicable adjustments to the protection amount as required in §3.134(d), (e), and (f) for any hedged securitization exposure and any more senior securitization exposure that benefits from the hedge. In the context of a synthetic securitization, when an eligible guarantee or eligible credit derivative covers multiple hedged exposures that have different residual maturities, the national bank or Federal savings association must use the longest residual maturity of any of the hedged exposures as the residual maturity of all the hedged exposures.

§§ 3.146–3.150 [Reserved]

RISK-WEIGHTED ASSETS FOR EQUITY EXPOSURES

§ 3.151 Introduction and exposure measurement.

(a) *General.* (1) To calculate its risk-weighted asset amounts for equity exposures that are not equity exposures to investment funds, a national bank or Federal savings association may apply either the Simple Risk Weight Approach (SRWA) in §3.152 or, if it qualifies to do so, the Internal Models Approach (IMA) in §3.153. A national bank or Federal savings association must use the look-through approaches provided in §3.154 to calculate its risk-weighted asset amounts for equity exposures to investment funds.

(2) A national bank or Federal savings association must treat an investment in a separate account (as defined in §3.2), as if it were an equity exposure to an investment fund as provided in §3.154.

(3) *Stable value protection.* (i) Stable value protection means a contract where the provider of the contract is obligated to pay:

(A) The policy owner of a separate account an amount equal to the shortfall between the fair value and cost basis of the separate account when the policy owner of the separate account surrenders the policy, or

(B) The beneficiary of the contract an amount equal to the shortfall between the fair value and book value of a specified portfolio of assets.